MURRAY SMITH WRITTEN TESTIMONY FOR MARCH 20 ENERGY AND COMMERCE SUBCOMMITTEE HEARING

Members of the committee, thank you for the opportunity to present the energy technology story for the oilsands of Alberta, Canada.

It has been my privilege to serve Albertans as Minister of Energy from 2001 to 2004, during that time I was able to quantify and register the 176 Billion Barrels of oil resource with the US Energy Information Agency. This move catapulted Canada's total oil reserves from 6 % of the world supply to over 16 %. We believe there are as much as 307 Billion Barrels of recoverable resource and over 1.2 trillion Barrels in place. Only technology will unlock this critical resource.

How Alberta moved from starting oilsands development in 1967, from scratch, with a joint government / private sector consortium to todays production levels of over 1.7 million Barrels /Day is a compelling story of human will, initiative and technology evolution. It would not have been possible without great contributions from USA based companies like Cities Services, Exxon and ARCO to name a few. Importantly the province of Alberta owns these resources and manages them on behalf of the citizens of Alberta.

Today in 2012 some scant 50 years later, the oilsands is the largest "investible "resource in the world today. By investible, I mean private dollars that can flow in from

private companies into a jurisdiction that respects the rules of property rights and ownership.
The oilsands is carefully regulated on many levels. Mine permits and facilities applications must go through extensive review before approval is granted for development.
After approval, construction and fabrication is carefully monitored with annual plans and developments submitted for mandatory approval.
As the projects begin to produce, there is again extensive oversight from the Alberta government and the regulator. There are no reports of oil spills from oilsands reserves.
As the oil is produced and shipped there are in place numerous monitoring programs. Today this oil is shipped primarily to the USA and in a recent report, there is evidence reported that retail gas prices, in areas where oilsands crude is delivered that price per gallon is as much as $.50 per gallon cheaper than in other regions of the USA that do not have access to Alberta oilsands crude.

Throughout this period technology innovation and continuous improvement have been keystones in oilsands development. Importantly, government policy and actual funding in partnership with industry have created this wealth creating, job-generating engine over many years.

So what has happened and how did we get here?

1n 1993 the oilsands had moved forward primarily from the production of two operators Syncrude and Suncor. Production was some 300,000 B/d and investors were reluctant to grow production and increase investment.

Government of Alberta royalty revenues had been suffering from low commodity prices, and deficit spending exceeded revenue by some 25%. Debt levels were approaching $28Billion. Crippling amounts for a small economy like Alberta.

Oilsands investors asked for a level playing field, a generic royalty structure, and accelerated tax recognition of their investments. They received no direct benefits or subsidies unless they invested their money first. A tax on machinery and equipment investment was phased out, based on levels of private sector investment. Royalty structure became based on payout period. Starting at a low point and increasing to $25 % of net profits.

With this structure, production increased from 300,000 B/d to over 600,000 B/d in 10 Years (a 7% annual year over year increase)
In 2003 the world became aware of the gigantic oil deposits of Alberta with official EIA recognition of the resource. This created a stampede of investment from around the world coupled with a surge in new technology focused on reduced green house gas

emissions, reduced environmental footprint in mining and “in situ” recovery, and cost and production efficiencies. The oilsands have been the worlds engineering “sandbox” for the past five years.
Great gains have been made, as you will hear today.
Let me just give one example: Williams is an active respected natural gas midstream USA based company. They have developed and have deployed a technology that reuses surplus gases emitted from the coking process that upgrades bitumen to a transferable form. As the gases are emitted from the coking process, Williams traps these gases. They then remove the propane, butane and higher c5+ gases for use and sale later in the gas stream. They return dry clean burning gas back to the cokers. This simple process now removes over 300,000 tons of CO2 from the atmosphere each and every year. They have the potential opportunity to place four or more plants in the area that will result in over 1 million tons per year reduction from gases to the atmosphere. This process creates wealth by converting and selling waste products that would have otherwise been released to the atmosphere. It creates high paying jobs in construction and plant operation. It gives North America a competitive edge in the world today.
This technology and the opportunity did not even exist 15 years ago.
I am sure you are anxious to hear further technological innovation in the oilsands, as other presenters will relate.

What's happened in Alberta? As a former politician who served 3 consecutive terms from 1993 – 2004, let me outline the changes.

As stated in 1993 Alberta, a province of 2.5 million people who had no disposable income increase in the past decade and provincial finances were gloomy with a spending profile that was 25% above income and a debt that grew to $28 Billion.

My political party, under the leadership of Premier Ralph Klein was elected on a platform to balance the budget, pay down debt and not increase taxes. ,

Alberta's deficit was eliminated (1995); all provincial debt was paid off in July 2004. Taxes were not increased; in fact Albertans received a cash refund from their government.

The Heritage Medical Research Fund, which provides scholarships to aspiring medical researchers, was doubled to $2Billion

The Alberta Ingenuity Fund, which grants funds to engineering innovation, was doubled to $2Billion

High school scholarships were doubled rewarding successful completion of high school in a 3-year period

A Sustainability Fund was created to weather economic downturns. A Capital fund was created to provide Albertans with new educational facilities, infrastructure and health care facilities, nurses, and doctors.

In all, thanks to government /private sector partnerships, a drive for technical innovation and human ingenuity Alberta was transformed.

In 2004, the books showed a stunning $68Billion turnaround from the dismal economic situation of 1993.

Albertans had the highest weekly earnings in Canada, the lowest unemployment rate, the lowest tax rate, and highest reported retail sales.

In 2005 when the famed “60 minutes “ show aired a special on the oil sands, a 22-year-old trucker said he had made $120,000 the previous year. At the end of the program the CBS phone line system was so deluged with calls that the system crashed. Over 1500 Americans ranging from truck drivers to nuclear engineers phoned in. To a person they wanted jobs.

The oilsands remains a job-generating machine that is technology driven. The production of oilsands crude delivers more economic value per barrel to the USA than any other Barrel of oil produced in the world today. 470 ton trucks from Caterpillar (mostly diesel electric and fuel efficient). Tires from Michelin in South Carolina. Consulting brains and steel from Chicago Iron, The list is long, and the jobs are many.

The oilsands will continue to drive efficiency in cost and production practices. Producers will put a high price on workplace safety. Technology, Innovation and Continuous improvement will reduce green house gas emissions and overall environmental footprint. Reclamation practices improve on a daily basis.

The building of the oilsands has created more jobs, more entrepreneurship and more prosperity for First Nations and Aboriginal peoples than anyplace else in Canada or any other initiative.

The increase in production will benefit North America with secure reliable, non-geopolitical, reasonable priced energy. As Democratic Governor Schweitzer of our neighbouring state of Montana has said ”I do not believe that I will ever have to send the National Guard to Alberta to protect our oil supply “

Alberta is the number one energy supplier to the USA and the dialogue and the insight such as will be gained today is critical to maintaining that special relationship.

Thank you for this opportunity to serve the US House of Representatives.